

PERSpectives

Fourth Quarter 2002

Public Employee Retirement System of Idaho

A Message from Retirement Board Chairman, Jody B. Olson



Jody B. Olson

Poor investment markets affect PERSI and mean lower Cost of Living Adjustment for retirees

Since August 2000, the US has experienced the worst equity market since the 1930s, both in duration and in depth. Such abysmal markets have, naturally, had a negative effect on PERSI's funding levels. In Fiscal Year 2002 (ended June 30, 2002), PERSI had a -7.1% return. The year before, we had a -6.1% return. Just two years ago, PERSI was 116% funded and was able to provide you with a gain sharing "13th Check." As of June 30 2002, PERSI was 84.9% funded.

Because of this, after months of deliberation, the PERSI Board voted at their November meeting to limit the 2003 retiree Cost of Living Adjustment (COLA) to the mandatory 1%. The COLA will begin March 1, 2003.

This 1% COLA is slightly less than the 1.8% growth in the Consumer Price Index (CPI) for the year. By law, PERSI's COLA cannot exceed the CPI or 6%, whichever is less. Because of the extremely poor investment performance over the last two years, the Board decided they had no option but to forgo the discretionary amount this year.

This will be the first time in 13 years that PERSI has not granted the maximum COLA. After twelve years of full COLAs and some retro-

COLAs, all PERSI retirees are currently at 100% purchasing power.

Active members and employers will also feel the effects of the negative markets as their contribution rates will increase July 1, 2004, 2005, and 2006. When all these increases are in place, contributions will be back to 1997 levels. In 1997, the rates were lowered due to PERSI's good funding status, but now the rates will return to the earlier levels.

It is not unusual for a retirement system's funding level to fluctuate. In the early 1990s we had a similar funding level to what we have now. In the late 1990s and 2000 we were over funded which is why we were able to provide gain sharing.

Having a funding deficit does not mean that PERSI is in bad shape or mismanaged. All pension funds fluctuate between being under and over funded. It is a moving target, so there is never a case of "okay we're 100% funded so we're done." In 2000 we were 116% funded. Our drop from being over funded to being under funded was caused by these few exceptionally bad years of the stock market. History shows us that drops like this are to be expected every so often, and we expect to gradually come back out of it. ♦

Surveys say...

PERSI provides high level of service at low cost

Your PERSI Board of Trustees feel that it is important for PERSI to provide you with a high level of customer service while carefully monitoring our administrative and investment expenses. We've been confident of our ability to do this, and now, by comparing our services and costs with those of similar US pension systems, we have evidence that PERSI does indeed provide a high level of service at a low cost.

What are PERSI's costs?

Less than one half of one percent (0.50%) of PERSI assets are used in the operation of PERSI. This includes all investment expenses including money management fees, consulting fees, trust, custody and recordkeeping, and salaries of PERSI staff and operating expenses.

How does this compare to other public pension systems?

PERSI has access to several surveys that compare expenses and staffing among public pension systems in the US.

The 2001 Public Pension Coordinating Council survey shows:

- The average US public pension system has 2.35 staff members

Continued - see "PERSI offers high level of service at low cost" on page 4

1099-R's to arrive soon

In mid-January, PERSI will mail your annual Internal Revenue Service 1099-R to you. This is for you to use when filing your federal and state income tax. PERSI also provides this information to the IRS. (Not all retirees file income taxes. Follow the advice of your tax professional.)

If you do not receive your 1099-R by February 5, you may request a duplicate 1099-R by writing to us at:

1099-R Request
PERSI
PO Box 83720
Boise ID 83720-0078

or by faxing us at
208 334-3805

Your faxed or written request must include your full name, Social Security Number, and signature.

If you have an address change, this may also be submitted to us via the address or fax number above.

Address changes must also include your name, Social Security Number, and signature.

Please do NOT call for duplicate 1099-R's as these requests MUST be in writing with your signature.

If you have questions about health insurance premiums paid during 2002, please call our insurance desk at 208 334-2451 x265 or 1-800-451-8228 x265. ♦

Form 1099-R

CORRECTED (if checked)

PAYER'S name, street address, city, state and ZIP code

PERSI
607 N 8th St
BOISE, ID 83702
(208) 334-3365

PAYER'S Federal identification number
82-0262042

RECIPIENT'S identification number
###-##-####

RECIPIENT'S name, street address (incl. apt. no.), city, state and ZIP code

YOUR NAME
YOUR ADDRESS

Account number (optional)

1 Gross distribution
\$10,000.00

2a Taxable amount
\$9,800.00

2b Taxable amount
not determined

OMB No. 1545-0119

2002
Form 1099-R

Total
distribution

**Distributions From
Pensions, Annuities,
Retirement or
Profit-Sharing
Plans, IRAs,
Insurance
Contracts, etc.**

3 Capital gain (included
in box 2a)

4 Federal income tax withheld
\$500.00

5 Employee contributions
or insurance premiums
\$200.00

6 Net unrealized appreciation
in employer's securities

7 Distribution code
7

IRA/
SEP/
SIMPLE

8 Other

%

9a Your percentage of total distribution
%

9b Total employee contributions

10 State tax withheld
\$100.00

11 State/Payer's state no.
ID/000221639

12 State distribution

13 Local tax withheld

14 Name of locality

15 Local distribution

Copy C For Recipient's Records

This information is being furnished to the Internal Revenue Service.
(keep for your records)

16 - 0331690

Department of the Treasury - Internal Revenue Service

FROM:

FROM:

PERSI

607 N 8th St - Boise, Idaho 83702

FIRST-CLASS MAIL

Important Tax Document Enclosed

YOUR NAME
YOUR ADDRESS

Sample 1099-R
Watch for your 1099-R in the mail soon

What the boxes mean on your 1099-R

Payer's name, address	PERSI's address and phone number
Payer's federal identification number	PERSI's federal identification number
Recipient's identification number	Your Social Security Number
Recipient's name, address	Your name and address
Account number	Not applicable

- 1** Total payments paid to you by PERSI during 2002.
- 2a** Taxable portion of your payments.
- 2b** Not applicable.
- 3** Not applicable.
- 4** Amount of federal tax, if any, withheld from your payments during calendar year 2002.
- 5** Box 1 less Box 2a. Non taxable contributions, if any, recovered tax-free during 2002. This does **NOT** include health insurance premiums.
- 6** Not applicable.
- 7** Distribution Code which represents what type of payment you received during 2002. Distributions from qualified retirement plans such as PERSI made to you before you reach age 59-1/2 may be subject to an additional 10% tax. The Distribution Code in Box 7 indicates if the distribution is subject to the additional tax or qualifies for an exception to the additional tax.
 - 1** Early distribution. No known exception applies. (Used only if you have not reached age 59-1/2.)
 - 2** Early distribution. Exception applies. Not subject to an additional tax.
 - 3** Disability.
 - 4** Death benefit.
 - 7** Normal distribution (age 59-1/2 or older).
 - A** May be eligible for 10-year tax option. (See IRS Form 4972)
 - G** Direct rollover to an IRA.
 - H** Direct rollover to a qualified retirement plan.
- 8** Not applicable.
- 9a** Not applicable.
- 9b** Not applicable.
- 10** Amount of state income tax, if any, withheld from your payments during calendar year 2002. PERSI withholds state income tax only for Idaho.
- 11** PERSI's state identification number.
- 12** Not applicable.
- 13** Not applicable.
- 14** Not applicable.
- 15** Not applicable.

For additional information, see these IRS publications:

Publication 575 Pension and Annuity Income

Publication 939 General Rule for Pensions and Annuities

Publication 524 Credit for the Elderly or the Disabled

These publications are available by calling toll-free **1-800-829-3676** or via the IRS Web site at www.irs.gov.

Or, contact the IRS, Idaho Tax Commission,, or your tax advisor. PERSI cannot provide tax assistance. 

PERSpectives to return to twice a year

Beginning with this January issue, PERSpectives will return to a twice-a-year publication instead of a quarterly. You will receive your newsletter every January and July. Thank you to all of you who have complimented us on our newsletter over the years!

PERSI offers high level of service at low cost

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per 1,000 active members. PERSI has one staff member per 1,000 members.

- Public retirement systems of similar size average 97 staff members. PERSI has 62.
- The average annual administrative expenses (not counting investment expenses) for systems of similar size is \$7.5 million. PERSI's administrative expenses are about \$4.3 million.

Another survey, by Cost Effectiveness Measurement Inc., compares larger US public pension systems. Its 2002 survey shows:


- Comparing the Total Cost per Member, PERSI's costs were \$65 per member with the average among the system being \$91 per

member. Excluding major projects from the comparison shows PERSI's costs at \$59 per member and the average system at \$63 per member.

- In comparing service levels provided for the costs, PERSI has a score of 76 points (on a 100 point scale) while the average system has 72 points. This means that PERSI members receive a higher level of service for less cost.
- In comparing the productivity or workload among the systems, the survey shows PERSI's workload at 132% of average (i.e. 100% equals the average so PERSI is 32% above the average).

Overall, this survey shows that PERSI provides a greater amount of service to members with a smaller staff at a lower cost. ♦

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**PERSpectives**

Public Employee Retirement System of Idaho

PERSpectives is published quarterly for members of the Public Employee Retirement System of Idaho
607 North 8th Street, Boise, ID 83702
Base Plan: 208.334.3365 or 1.800.451.8228
Choice Plan: 1.866.ID.PERSI
www.persi.state.id.us

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PERSI

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